

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bobby Drake, Powell County Judge/Executive
Honorable Rhonda Allen Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of Powell County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Powell County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
POWELL COUNTY
CLERK**

**For The Year Ended
December 31, 2003**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE POWELL COUNTY CLERK

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the Powell County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$37,783 from the prior year, resulting in excess fees of \$7,339 as of December 31, 2003. Revenues decreased by \$634,310 from the prior year and expenditures decreased by \$596,527.

Debt Obligations:

Total debt principal as of December 31, 2003 was \$16,401.

Report Comments:

- The Clerk Should Retain A Copy Of Her Fee Settlement
- The Clerk Should Maintain Adequate Offsite Backups Of Computerized Financial Data
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Clerk Should Publish Her Fee Settlement Within Sixty Days Of Year-End
- The Clerk's Settlement Should Be Approved By Fiscal Court By March 15
- The Clerk Failed To File Required Information Returns For Contract Bookkeeper

Deposits:

On April 9, 2003, \$56,013 of the Powell County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds.

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The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Rhonda Allen Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Powell County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

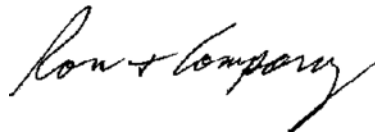
The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Rhonda Allen Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Clerk Should Retain A Copy Of Her Fee Settlement
- The Clerk Should Maintain Adequate Offsite Backups Of Computerized Financial Data
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Clerk Should Publish Her Fee Settlement Within Sixty Days Of Year-End
- The Clerk's Settlement Should Be Approved By Fiscal Court By March 15
- The Clerk Failed To File Required Information Returns For Contract Bookkeeper

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Powell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

POWELL COUNTY
RHONDA ALLEN BARNETT, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services		\$	15,014
Fiscal Court			1,120
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	342,506	
Usage Tax		703,186	
Tangible Personal Property Tax		740,029	
Licenses-			
Fish and Game		29,882	
Marriage		5,175	
Deed Transfer Tax		13,179	
Delinquent Tax		<u>107,533</u>	1,941,490
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	8,072	
Real Estate Mortgages		23,360	
Chattel Mortgages and Financing Statements		49,811	
Powers of Attorney		636	
All Other Recordings		11,963	
Charges for Other Services-			
Miscellaneous		<u>12,428</u>	106,270
Other:			
Miscellaneous			5,312
Interest Earned			<u>1,935</u>
Total Revenues		\$	2,071,141

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 RHONDA ALLEN BARNETT, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 264,060

Usage Tax 680,535

Tangible Personal Property Tax 283,152

Licenses, Taxes, and Fees-

Fish and Game 29,451

Delinquent Tax 15,176

Legal Process Tax 12,869

Candidate Filing Fees 15 \$ 1,285,258

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 68,019

Delinquent Tax 13,581

Deed Transfer Tax 11,632 93,232

Payments to Other Districts:

Tangible Personal Property Tax \$ 357,040

Delinquent Tax 54,049 411,089

Payments to Sheriff

2,423

Payments to County Attorney

14,841

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 79,421

Contracted Services-

Advertising 105

Materials and Supplies-

Office Supplies 13,591

Other Charges-

Conventions and Travel 6,934

Dues 800

Postage 3,910

Refunds 5,082

Miscellaneous 18,626

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 RHONDA ALLEN BARNETT, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	<u>\$ 60,745</u>	\$ 189,214
Debt Service:		
Lease Purchases		<u>5,994</u>
Total Expenditures		<u>\$ 2,002,051</u>
Net Revenues		\$ 69,090
Less: Statutory Maximum		<u>59,199</u>
Excess Fees		\$ 9,891
Less: Expense Allowance	\$ 3,600	
Training Incentive Benefit	<u>759</u>	<u>4,359</u>
Excess Fees Due County for 2003		\$ 5,532
Payments to Fiscal Court - March 9, 2004		7,243
May 21, 2004		<u>96</u>
Refund Due County Clerk at Completion of Audit		<u><u>\$ (1,807)</u></u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 For The Year Ended December 31, 2003
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of April 9, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$56,013 of public funds uninsured and unsecured. In addition, the County Clerk did not have a written agreement with the depository institution securing the Clerk's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 9, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	90,880
Uncollateralized and uninsured	<u>56,013</u>
Total	<u>\$ 246,893</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2003
(Continued)

Note 4. Lease

On October 1, 2001 the County Clerk at the time entered into a term lease with Xerox for the purchase of two copiers. The lease term was for five years and must be renewed annually. The lease requires annual monthly payments of \$251 for one copier and \$246 for the second copier. As of December 31, 2003 the remaining lease requirement, if renewed annually, for both copiers totals \$16,401

Note 5. Commitments and Contingencies

There is a possibility the Clerk will be sued by Software Management, Inc. (SMI) over a contract dispute. Judgment against the Clerk could be at least \$20,000.

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
RHONDA ALLEN BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Clerk Should Retain A Copy Of Her Fee Settlement

The Clerk should retain a copy of her statement of revenues and expenditures, in compliance with state records retention policies.

County Clerk's Response: Agreed, will do so in the future.

The Clerk Should Maintain Adequate Offsite Backups Of Computerized Financial Data

We recommend the Clerk backup computerized financial data, and store backups in a secure offsite location.

County Clerk's Response: Agreed, I have learned from experience.

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 9, 2003, \$56,013 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: I will do so.

The Clerk Should Publish Her Fee Settlement Within Sixty Days Of Year-End

According to KRS 424.220(6), the clerk shall, within 60 days after the close of the calendar year, cause the financial statement to be published. We recommend that the Clerk publish her settlement within 60 days as required.

County Clerk's Response: I agree. I was aware of this, but could not find time to get with the bookkeeper to get this statement prepared. I will do so in the future

POWELL COUNTY
RHONDA ALLEN BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Clerk's Settlement Should Be Approved By Fiscal Court By March 15

We found no record of the clerk providing a statement of revenues and expenditures. KRS 64.152 requires the Clerk to provide a statement of revenues and expenditures of the preceding calendar year by March 15. We recommend the Clerk comply with KRS 64.152.

County Clerk's Response: I agree. However, I did turn over my excess fees to the fiscal court.

The Clerk Failed To File Required Information Returns For Contract Bookkeeper

The County Clerk engaged Judy Denniston, Powell County Treasurer in an individual capacity to do bookkeeping at the negotiated and mutually agreed fee of \$600 per month. No Form W-9 was either requested or received and no Form 1099-MISC was issued for 2003. Additionally, although this agreement was confirmed directly with Judy Denniston, there was no written agreement nor were invoices for her services ever submitted to the Clerk's office. We recommend that the Clerk file all required information returns in the future. We also recommend that the Clerk ask the County Attorney and Governor's Office for Local Development to review the arrangement with the County Treasurer to ensure there is no conflict of interest or inappropriate payment.

County Clerk's Response: I no longer employ a bookkeeper.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Rhonda Allen Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Powell County Clerk for the year ended December 31, 2003, and have issued our report thereon dated January 31, 2005. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk Should Retain A Copy Of Her Fee Settlement
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

